OIL AND GAS INSPECTION AND ENFORCEMENT STRATEGY GOALS

I. PRODUCTION ACCOUNTABILITY INSPECTIONS

All producing Indian and Federal cases rated High to the Federal Oil and Federal Oil and Gas Royalty Management Act (FOGRMA) criteria must be inspected annually. In addition, it is the goal of the Bureau of Land Management (BLM) Inspection and Enforcement (I&E) Program to inspect thirty-three percent of all other Indian and Federal production cases annually as well.

When a case is selected for Production Inspection (PI), the Petroleum Engineering Technician (PET) conducting the inspection will review purchaser statements to determine who purchases production from the case being inspected. In some instances there may be multiple purchasers or the purchaser may be the same entity as the operator/producer. In both instances with either multiple purchasers or same operator/purchaser entities, a minimum of 25 percent of all wells and facilities where sales take place will be witnessed/inspected (including those on Fee and State leases when agreements are involved). Inspection activities that must be performed include those that ensure that production is being handled properly, measured accurately, reported correctly, and the environment and public health and safety are being protected. At a minimum, this will require that all methods of measurement occurring within the case are witnessed/inspected (including all Fee and State wells and facilities attached to the case). On large cases (more than 10 wells and 10 facilities) when multiple purchasers are involved, the PET will witness sales on a minimum of at least three different sales per individual purchaser to ensure a good cross section of the purchaser/transporter sales process. During the PI, observations are to be made for site security, environmental compliance, public health and safety concerns, and a review of production records. The selection of inspection activities can be as comprehensive as deemed necessary by the PET and can be accomplished with a mix of both field visits and in-office reviews.

If the PET detects violations or problems during the course of the inspection, steps must be taken to determine the extent of the problem and what corrective actions may be necessary. Additional inspection activities may be needed to determine if problems or violations exist at other facilities and/or wells within the case (includes Fee and State leases associated with the case). This may also include a conclusion that problems or violations are systemic for that particular operator and may require additional inspections of other cases managed by that operator.

The PET conducting the inspection must be satisfied that an **adequate sampling** of the applicable production activities (measurement, environment, site security, etc.) has been performed and ensures that any violations or problems have been resolved.

The following steps further define the minimum requirements for a PI:

A. If production is occurring on the case: measurement, environmental, site security inspection activities, and a partial records review must be performed. The

measurement activity(s) must include comparison of the corresponding production record(s) related to the measurement activity. For example, if conducting a Tank Gauging (TG) activity, the PET would review the corresponding run ticket for completeness and accuracy. In some instances, a single run ticket will allow Field Offices (FO) to verify reported sales on the Oil and Gas Operations Report (OGOR) on low producing cases.

1. The FOs must inspect an adequate sample size of wells and facilities within a case (includes Fee and State wells and facilities in cases that involve agreements), along with an inspection of each type (oil and gas) of measurement (tank gauge, Lease Automatic Custody Transfer [LACT] meter, orifice meter, etc.) The PET may either witness or independently perform measurement activities to fulfill this requirement.

   The sample size is to be determined by the individual conducting the inspection. Factors to consider in determining the sample size are dependent on the number of wells, facilities, measurement equipment, methods, and types. The PET must be satisfied that an adequate number of inspection activities have been performed to ensure that the production is being properly handled and accurately measured.

   For example, if a case has 10 gas orifice meters, 5 oil sales tank facilities, and 2 LACT meters, the PET must witness or perform an inspection activity on each measurement type and method (gas measurement, oil tank sales, and meter proving), but may not have to witness all 10 gas orifice meter calibrations, 5 oil sales, etc., if problems are not detected during the initial representative sampling and additional activities are not warranted. This is a minimum requirement, and PETs are encouraged to conduct more measurement inspection activities if they feel it is necessary to ensure that oil and gas measurements are accurate. The PET has the latitude and discretion to determine the representative sampling size for each case as long as the production inspection examines each measurement type and activity occurring within the case. The FOs may continue to use the 25 percent representative sampling size, taking care to ensure that the representative sampling of wells and facilities is documented accurately so that a different set of wells and facilities may be inspected in the future. This will also ensure that all wells and facilities within the case (includes Fee and State wells and facilities when the case is an agreement) are inspected within a period of three years, or at most, four years.

2. The sample must include inspection activities associated with environmental (SP) and public health and safety (HS) concerns. The BLM's emphasis related to the environment and public health and safety remains high.

3. The sample must also include site security (SS) inspection activities.

4. The partial production records review (coded as PI/RR) must include, at a minimum, a review of the Minerals Management Service (MMS) OGOR, Form 4054, to analyze trends and production history, and identify potential reporting errors. This includes a review of the disposition of production on the OGOR reports for the past six months and the production average report for the past three years.

The following are suggested areas on the OGOR report that should be reviewed as part of the PR activity and are example indicators of possible discrepancies in production handling and reporting that should be pursued if found during an OGOR review:

1. Verify reported well status against production documents submitted by the operator for review (such as the daily gauge reports).

2. One or more days of production reported with zero volumes of oil, gas, and/or water.

3. Zero days produced with reported gas, oil, and/or water volumes.

4. Extreme variations in reported production volumes when the number of days produced remained constant.

5. A pattern of reporting identical volumes or consistent fluctuations, such as variations by one-fourth, one-half, or two-thirds; or changes of 200, 400, or 600 barrels for many months.

6. Irregularities of volumes listed in the "other" (disposition of production) column.

7. Discrepancies between the OGOR and any other information obtained during the inspection activities.

8. Production volumes and/or wells being reported on the wrong case.

9. Unreasonable "used on lease" or “flared” or “vented” volumes (verification of approval required for these categories).

10. Discrepancies between beginning and ending stock on hand.

Some of the errors noted above may be located by using special reports available in Automated Federal Minerals Support System (AFMSS) such as the Zero Production Report.

For the 10 FOs with both Federal and Indian data, OGOR data is currently not available through AFMSS. The FOs are encouraged to secure access to the MMS BRIO Portal website to obtain current OGOR data. Production data reported to individual States is not an acceptable method for comparison. To request access to the MMS BRIO Portal, contact Jane Heschele at (303) 231-3675 or William Gewecke at (202) 452-0337.

Field Offices are encouraged to conduct detailed production record reviews, coded as PR activity. Significant amounts of volume discrepancies have been found when conducting the PR inspection activity. Due to the effectiveness of the PR, FOs are encouraged to continue using this inspection activity.

Also, at the discretion of the FO, a complete production records review (coded as PI/PR) may be conducted on Low FOGRMA Priority cases (overall priority ranking of Y or Z) without a field visit. High FOGRMA cases must have a field inspection conducted on an annual basis. These PI/PR reviews include verification of "used on lease" and "flared" or "vented" volumes to ensure the appropriate approval is on file, and records review of the oil and natural gas volumes associated with these reported disposition categories.

If a case is subject to a variable royalty rate, the PET must verify if the production subjects the lease to a higher royalty rate. If the production level indicates a higher royalty rate, a sample check of the status of the wells must be made to verify if they are countable wells. If the sample determines that the operator is reporting incorrectly, the sample will need to be enlarged to include additional wells.

B. If production is not occurring within the case, only the partial records review and the appropriate field inspection activities must be performed (such as site security, coded as PI/SS; well status checks, coded as PI/WS; environmental, coded PI/SP; and, if applicable, health and safety, coded as PI/HS).

II. DRILLING, PLUGGING, WELL PRODUCTION TESTING, CHANGE OF OPERATOR, NEW PRODUCING WELL and WORKOVER INSPECTIONS

Conduct drilling inspections on all High Priority drilling wells. The priority will be determined at the time of Application for Permit to Drill (APD) approval and inspections conducted in accordance with that priority. It is critical that this priority setting is based upon real concerns rather than classifying all drilling as High Priority. At a minimum, the activity causing the drilling well to be classified High Priority must be witnessed.

Conduct plugging and abandonment inspection on all wells determined to be High Priority at the time of approval of the Notice of Intent to Abandon (NIA). This High Priority determination must identify which part of the plugging plan is critical, for example, placing a cement plug across a water zone. Witnessing the other parts of the

plan such as placement of stabilizing plugs or surface plugs may not be considered High Priority.

High Priority drilling and abandonment inspections shall take precedence over production inspections if scheduling conflicts arise. Drilling and plugging inspections are externally driven, while production inspections are controlled internally and can be more easily rescheduled. Ensuring that drilling and plugging operations are in compliance from the outset will minimize potential problems in the long term, particularly with regard to contamination of subsurface resources including fresh water aquifers and surface related environmental concerns. These operations often occur outside normal work hours. The FOs must ensure that resources are available to conduct these inspections.

Conduct Interim Inspections of all well production testing operations rated High Priority that occur during or after drilling operations but prior to a well being placed in producing well status. Disposition of produced fluids during production test operations is the purpose for these inspections.

Conduct inspections on wells/cases that are considered High Priority for production and there is a Change of Operator during the FY. This does not include mergers or name changes. This is to be done on cases where the operator is new to the area or has not operated on Federal or Indian wells in the past.

All new producing wells that come on production during the FY that are associated with High FOGRMA cases are considered High Priority for an initial production inspection. Conduct inspections of all Work-over operations rated High Priority. Review and identify any critical operations to be inspected upon approval of the work plan. Inspect those operations deemed to be High Priority at the time of approval.

III. ENVIRONMENTAL INSPECTIONS

Conduct all High Priority surface inspections on drilling wells and plugged well site locations. Also, conduct environmental inspections annually on all cases rated High due to environmental concerns. A well that has completed drilling operations and is in a producing well status is considered a High Priority Environmental Interim Inspection for reclamation concerns. Classification of environmental ratings for the estimated drilling and plugging activities, and review of the rating for active cases will be performed each year at the time of matrix preparation to ensure that we have an accurate accounting of environmental inspection workload requirements. The I&E Strategy Handbook addresses clarification on establishing a priority rating.

As with the technical inspections, the environmental, drilling, and plugging inspections on those wells rated High Priority for surface concerns, shall take precedence over environmental production inspections (PI-SP).

IV. OTHER INSPECTION REQUIREMENTS

Conduct an inspection on all cases rated as High Priority for public health and safety, legal, or other standards. The inspection should be conducted to specifically address the reasons the case was rated High for these criteria.

Although they are not required under strategy goals, FOs should continue to conduct Records Verification (RV) and Undesirable Event (NU) inspection types as time or circumstances warrant. All major spills, fires, accidents and fatalities should be inspected and reported per NTL 3A.

V. DOCUMENTATION

Inspection and Enforcement (I&E) Documentation requirements are outlined in Washington Office (WO) Instruction Memorandum(IM) 2006-116, *Oil and Gas Inspection and Enforcement (I&E) Documentation Requirements*, dated March 14, 2006. Please refer to WO IM 2006-116 for inspection documentation guidance.

Each inspection must contain a brief synopsis/summary of the results of the inspection, including notes that may aid in future inspections (for example, violations or problems detected; resolution of problems; volume discrepancies; installation of a new LACT gas meter or tank(s); Blow Out Prevention failures; placement of plugs; and so on).